

MINUTES OF THE CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

February 16, 1999

The Capital Projects and Bond Oversight Committee met on Tuesday, February 16, 1999, at 1:00 PM, in Room 129 of the Capitol Annex. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chairman; Senator Bob Leeper, Vice Chairman; Senator Tom Buford and Representatives Robert Damron and Jim Wayne.

Guests: Bill Hintze, Roger Burge, Ron Carson, Earl Clemons, Allen Holt, and Bob Shimer, Governor's Office for Policy and Management; Secretary John McCarty, Finance and Administration Cabinet; Commissioner Armond Russ and Jim Abbott, Department for Facilities Management; Kim Blich, Bart Hardin, and Tom Howard, Office of Financial Management and Economic Analysis; Mary Lassiter, Governor's Office; Marilyn Eaton-Thomas, Kentucky Infrastructure Authority; Dr. Robert Tarvin, School Facilities Construction Commission; Dr. Gordon Davies, Sherron Jackson, Ken Walker, and Miko Pattie, Council on Postsecondary Education; Mary Allen and Ken Clevidence, University of Kentucky; Commissioner Bob Arnold, Department for Local Government; Lawrence Weatherby and Kent Anness, Kentucky Water Resource Development Commission; Marcia Morgan and Paul Royce, Cabinet for Health Services; Bob Benson, Department of Parks; Tom Engstrom and Sara Nicholson, Department of Education; Bob Benson, Jefferson County Regional Airport Authority; David Ballard, Department of Information Systems; John Brazel, Kentucky Chamber of Commerce; Zig Grigalis, Justice Cabinet; Jerry Bailey, Kim Burch, Lola Lyle, Nancy Osborne, Dan Risch, Charles Shirley, and Doug Teague, LRC.

LRC Staff: Mary Lynn Collins, Pat Ingram, Jack Affeldt, Lou Pierce, and Shawn Bowen.

Press: Mark Chellgren, Associated Press.

Senator Leeper made a motion to approve the minutes of the January 19, 1999 meeting as submitted. The motion was seconded by Representative Damron and passed by voice vote.

Chairman Haydon said Committee members toured the new Kentucky History Center before today's meeting. He encouraged others to visit the new History Center, which opens to the public April 10, 1999. He asked staff to extend the Committee's gratitude to Virginia Flanagan, Director of the History Center.

Chairman Haydon reviewed one correspondence item in members' folders - the Kentucky Lottery Corporation's monthly financial status report for December 1998. Legislation passed during the last legislative session directed the Lottery Corporation to transfer all unclaimed winnings in excess of \$6 million in each year of the biennium to the Affordable Housing Trust Fund. The \$6 million threshold was surpassed in December and from this point through the month of June, all unclaimed winnings will go to the fund. Chairman Haydon then introduced Representative Wayne to discuss the Affordable Housing Trust Fund.

Representative Wayne said the Affordable Housing Trust Fund is a fund set aside for assisting with housing for the working poor in Kentucky. He said the unclaimed winnings for December which will be transferred to the fund total \$514,000, and the Lottery Corporation anticipates another \$1.5 million will be added shortly. Representative Wayne said he was pleased the money could be applied to a good cause, and a public announcement will be made by the Governor later this week.

In response to a question from Senator Leeper, Representative Wayne said the first \$6 million in unclaimed lottery winnings was used to cover prizes, advertising, and Lottery Corporation expenses.

Chairman Haydon then called on Mr. Bill Hintze, Deputy State Budget Director, Governor's Office for Policy and Management (GOPM), and Commissioner Armond Russ, Department for Facilities Management, to discuss two projects submitted by the Finance and Administration Cabinet.

Mr. Hintze said both projects involved allocations from the Statewide Deferred Maintenance Account for removal of underground fuel storage tanks. The first project was for the Department of Education. Mr. Hintze said the Department of Education was not allocated maintenance funds from the 1998 General Assembly, and Secretary McCarty agreed to allocate \$200,000 from the deferred maintenance account to serve as the Department's maintenance fund. Mr. Hintze said the Department has exhausted its original allocation and is requesting \$15,000 to remove underground storage tanks at the Kentucky School for the Deaf.

In response to a question from Chairman Haydon, Mr. Hintze said the Department of Education did not meet the mandated deadline for removal of the underground fuel storage tanks.

The second project Mr. Hintze discussed was for the Cabinet for Health Services. Previously, in November 1998, the Finance and Administration Cabinet reported that the Cabinet had exhausted its maintenance pool for the current year, and was facing the deadline for the removal of underground storage tanks. At that time, the Cabinet was allocated \$137,500 from the deferred maintenance account to replace underground fuel storage tanks at Central State Hospital, Eastern State Hospital, Hazelwood, and Outwood. Mr. Hintze said more on-site work has been done with consultants, and it has been determined the scope of the work will be substantially more than was reported in November. The Cabinet is requesting an additional \$131,600 to fund the replacement of the tanks; however, he cautioned the Committee that they do not have bids for replacement of all tanks and the project could possibly require more funds.

Chairman Haydon said both items are for the Committee's information and no further action is required.

Chairman Haydon congratulated the Finance and Administration Cabinet for the high grade the state received in *Governing* magazine's study of state management practices. Mr. Hintze said a national study was conducted jointly by Syracuse University and *Governing* magazine of all 50 states' management practices. Overall, Kentucky earned a B, which placed Kentucky behind only five other states. There were five areas of concentration, one of which was capital management. Kentucky did best in this area, receiving an A-. Mr. Hintze said the ranking was achieved, in part, due to the processes followed by the Capital Projects and Bond Oversight Committee and by the Capital Planning Advisory Board. The other grades were for human resources management, managing for results, financial management, and information technology management. While Kentucky's lowest grade, a C+, was received for information resources technology, that was the norm for that category. Mr. Hintze said they are very pleased with how Kentucky ranked; a lot of people put a lot of effort into working with the study group to make sure the state would get proper recognition.

Next, Mr. Jim Abbott, Director, Division of Real Properties, presented two lease modification reports. The first lease modification was PR-3892, in Boyd County for the Workforce Development Cabinet. The action taken is an increase of 180 square feet, for a total of 3,875 square feet, to provide additional office space.

Mr. Abbott then reported on a lease modification for PR-4028, in Boyle County for the Kentucky Community and Technical College System. The action taken is an increase of 115 square feet, for a total of 8,400 square feet, to provide space for a storage room.

Chairman Haydon said lease modifications of less than \$50,000 are required to be reported to the Committee but no further action is necessary.

Next, Chairman Haydon called on Ms. Marilyn Eaton-Thomas, with the Kentucky Infrastructure Authority (KIA), Local Government Commissioner Bob Arnold, and Mr. Lawrence Weatherby, Director of the Water Resource Development Commission (WRDC), to discuss a project proposed for KIA funding.

Ms. Eaton-Thomas said the project to be presented today, is unlike projects KIA typically presents to the Committee. It is not a local construction project, but a statewide planning effort. She said when the commissioner, who is also chairman of the WRDC, approached KIA in January about a Fund B1 Grant, KIA staff was skeptical as to whether it was an eligible project, but concluded it is. Specifically, the WRDC is asking KIA to fund Phase II of a statewide strategic water plan. Ms. Eaton-Thomas said Phase I of the plan, now completed with the assistance of the Area Development Districts (ADDs), identified all the water and sewer infrastructure in the state. Phase II of the plan involves identifying the gaps in service and estimating what it will cost to fill those gaps.

Ms. Eaton-Thomas said the WRDC requested \$753,000 from KIA to accompany a \$300,000 Appalachian Regional Development Commission grant to fund the entire project. The project will involve participation by the ADDs and by the Kentucky Geological Survey. She said KIA met in January and this project was approved in the requested amount of \$753,000 with five conditions. The conditions include: 1) KIA's bond counsel, Peck, Shaffer & Williams LLP, must review the final set of Phase II activities and concur that they are eligible activities; 2) The budget must identify the activities funded with Appalachian Regional Commission (ARC) funds; 3) The WRDC must provide assurance to continue funding of data maintenance after the project ends; 4) Phase I must be completed and reviewed by the Technical Committee before funds can be distributed for Phase II and written comments by the Technical Committee should be provided to KIA; and 5) The WRDC must submit a plan for involving other state and federal water and sewer agency staff in the plan development process to avoid conflicts with other planning requirements.

Mr. Bob Arnold, Commissioner of Local Government, said the WRDC is charged with getting potable drinking water to every Kentuckian by the year 2020. He said that does not mean running a water line to everyone's home, but it does mean assuring access to water and sanitary sewers.

Commissioner Arnold said the first phase of the project was funded by a General Fund appropriation for 1998-99 of \$1.1 million. Phase I included compiling data in a statewide geographic information system (GIS) format to show the location of water lines, water tanks, reservoirs, and sewer systems. Commissioner Arnold said now that

Phase I is complete, the collected information will be compiled as one big map. This map will allow the WRDC to locate the gaps in water service, and see where water lines can be looped, joined or made larger, and where water districts should be regionalized.

Commissioner Arnold said a General Fund appropriation for Phase II of this project during the last legislative session was not included in the Governor's recommended budget because at the time they thought they had a solid financial commitment from the federal Corps of Engineers and from the Kentucky Congressional Delegation to fund Phase II. Unfortunately, that did not happen and the WRDC was left with no money for Phase II.

He said in Phase II representatives of the ADDs will work with engineers of each water utility to estimate the cost of extending water lines to serve everyone in the utility service area. They will consider the feasibility and the cost effectiveness of system consolidation (water and sewer) and will propose incentives to encourage consolidation.

Representative Wayne asked how often the Technical Advisory Committee met, and if Phase I of the project has been thoroughly reviewed. Commissioner Arnold said the Technical Advisory Committee was formed when the WRDC started in 1996. The group was formed to make sure the statewide water infrastructure program is a coordinated statewide effort. Mr. Weatherby added that the Technical Advisory Committee has met weekly since Phase I was completed in January. He said the Technical Advisory Committee includes representatives from the Division of Water, the Public Service Commission, the Transportation Cabinet, the Kentucky Rural Water Association, the Magistrates' Association, and the ADDs.

Representative Wayne asked what the actual cost of the project is and if the WRDC anticipates returning to the legislature in 2000 for more money. He said he has talked with people that think this is a very ambitious project, and the WRDC may not have the money to actually complete the project. Commissioner Arnold said they may have to come back and request additional funding in 2000 to implement the plan, but he fully expects the funding they are requesting today to be adequate to complete Phase II. He added that a number of groups are working with the Department for Local Government on this project, including staff from the 15 ADDs, the Cabinet for Natural Resources and Environmental Protection, the Public Service Commission, and the Kentucky Geological Survey.

Representative Wayne asked how the WRDC's plan relates to the Kentucky-American Water Company's plan for a pipeline that will run from the Ohio River at Louisville to Lexington. Commissioner Arnold said the pipeline is a separate issue, but the proposed pipeline will be considered as they consider the most economically efficient way to address service gaps in Central Kentucky. He said that issue will be considered by

not only the WRDC, but also by the Kentucky River Authority and by other groups looking at those same issues.

Representative Wayne said he would like to propose amending the conditions KIA is attaching to its approval of this project. He said the amendments are to assure the Commission is working with other related groups and that planning and zoning efforts are considered.

The amendments offered by Representative Wayne are as follows: (1) amend Condition #3 to require the WRDC to identify costs to maintain the data base; (2) amend condition #4 to require the Technical Advisory Committee to provide written comments on the work plan for Phase II and require written comments on Phase I and II be transmitted to the Committee, as well as to KIA; (3) amend Condition #5 to require the WRDC to include local governments, sewer and water districts, and water utilities in its plan for coordination and involve local planning commissions as well, to assure efforts are consistent with locally adopted comprehensive plans; and (4) add a new condition: require the WRDC to agree that GIS work of Phase I and Phase II be in accordance with standards of the Kentucky Office of GIS, and to work cooperatively with that office.

Representative Wayne noted concerns that the project may include development. He said in this decade alone, Kentucky has lost 9% of its farmland to suburban sprawl. He said the WRDC's goal is of major importance to the state, and although people need to have safe drinking water, the state also needs to balance that with its plans for growth. He said by amending KIA's conditions, the Committee will make sure everyone is working together.

Commissioner Arnold agreed to the amended conditions proposed by Representative Wayne, and said the WRDC is already working with other agencies.

Ms. Eaton-Thomas said no new bonds will be sold for this project; it will be financed with repayments from prior loans. Both Ms. Eaton-Thomas and Commissioner Arnold said KIA will be able to use the GIS information being developed in future review of projects.

In response to a question from Representative Damron, Ms. Eaton-Thomas said KIA is collecting financial information about water districts. Representative Damron asked if any water districts were attending today's meeting to support the WRDC's plan. Ms. Eaton-Thomas said she was not sure if individual water districts were aware of the meeting, but Mr. Gary Larrimore, Executive Director of the Kentucky Rural Water Association, which represents most rural water districts in the state, and the Public Service Commission, which oversees all the water district projects, are aware of the

project. Commissioner Arnold added that Mr. Larrimore is a member of the WRDC and has been very supportive of this project.

Representative Damron asked how the \$753,000 in Fund B funds would be used if not spent on this plan. Ms. Eaton-Thomas said the money would go to drinking water projects.

Representative Damron said he had a problem with the project; it was not in the Governor's recommended budget, nor in the enacted budget; and the authorization of expected funds from the federal government was not recognized in the budgetary process. He said in his legislative district, funds are needed to lay water lines. The city of Lancaster, for example, has requested funds from KIA for a water project. He said he did not want to divert funds that might make the difference as to whether KIA had sufficient money to fund projects like that of Lancaster.

Representative Damron asked why the water districts cannot generate money for the plan. He said the WRDC is planning to build an infrastructure across the state, even in places where it is not needed. He said whenever waterlines are run throughout rural parts of the state, development follows, and people in his district are very concerned about suburban sprawl.

Commissioner Arnold said the plan would be used in making future fund allocations from a number of programs administered by KIA, the federal Rural Development program, Community Development Block Grants, and the Cabinet for Natural Resources and Environmental Protection. He said \$753,000 is a small amount of the total funds available and will be used for planning purposes to make sure future funds available for water infrastructure are spent in the most efficient and most economic way. He said that Fund B has not been fully utilized, but in response to a question from Representative Damron, he said he was not sure why that was so.

Representative Damron asked if Fund B moneys, since they are not being utilized, can be transferred to Fund F. Ms. Eaton-Thomas said during the last legislative session, a new direction was taken for Fund B. Thirteen million dollars was committed to four grant projects in the state; there was also a directive to use the remainder of the funds for drinking water projects that would support the work of the WRDC; in addition, the requirement that Fund B projects must be tied to job creation was dropped to increase utilization. She stressed that Fund B money is to be expended according to a prioritization list to be developed by KIA and the WRDC.

Representative Wayne said he had some concerns about the overall mission of the WRDC. He said by running water lines across every square acre of Kentucky, development will result. He said there are serious questions about the cost of the project

and whether it is underfunded. He said the Kentucky Planners Association and planning commissions have not been involved in this project, and the state office of GIS, up to this point, has had limited involvement.

Commissioner Arnold said he disagreed with Representative Wayne's statement about the state office of GIS. To the contrary, he said, the GIS office has been heavily involved in this project. Representative Wayne thanked the commissioner for correcting his information on that point, and said by amending KIA's conditions, he was trying to encourage cooperation by the various affected groups.

Commissioner Arnold said the mission of the WRDC is not to run water lines across the state, but to run water lines to existing households. Right now, there are approximately 275,000 households in Kentucky that do not have potable drinking water. Commissioner Arnold added that public health is also a side benefit of this project.

Senator Buford said he may not support this project today, but he might after he has had a chance to find out how water districts in his area feel about the project. He noted the potential controversy and concerns related to water district consolidation and the proposed water pipeline from Louisville to Lexington. He said he was reluctant to support a project the Governor did not include in his recommended budget, even though a request was made, and the federal government failed to fund the project. He said he wanted to ascertain whether there is some support for this project before he voted on it.

Commissioner Arnold said the WRDC is not a new commission; it has been in effect since October 1996, and its mission remains the same. He said Mr. Larrimore, a representative for the rural water districts, is a member of the commission, and if the water districts were against it, the commission would have heard about it.

Representative Wayne made a motion to amend the conditions KIA attached to the project. The motion was seconded by Senator Leeper and passed by voice vote. Representative Wayne then made a motion to approve the Fund B1 grant for the Water Resource Development Commission with the conditions as amended. The motion was seconded and passed by voice vote. Representative Damron and Senator Buford asked that the record show they voted against the motion.

Next, Mr. Tom Howard, Deputy Director, Office of Financial Management and Economic Analysis (OFMEA), presented bond issue reports. The first bond issue report Mr. Howard discussed was KIA Revolving Loan Fund Revenue Refunding Bonds, 1999 Series M. Gross proceeds of \$16,285,000 will be used to refund selected maturities from Series 1991E, 1992G, and 1995J. Mr. Howard said the proposed date of sale is April 1, 1999; the bonds are rated A by Moody's and by Standard and Poor's; the net interest rate

is expected to be 4.25%; the length of term will be 16 years; the present value savings are projected to be \$630,158; and the first call date is June 1, 2010.

Representative Damron made a motion to approve KIA Revolving Loan Fund Revenue Refunding Bonds, 1999 Series M. The motion was seconded by Senator Buford and passed by voice vote.

Next, Mr. Howard discussed KIA Governmental Agencies Program Revenue and Revenue Refunding Bonds, 1999 Series J. Gross proceeds of \$15,210,000 will provide permanent financing for projects funded by KIA's interim refinancing program, and will also advance refund selected 1995 Series G maturities. Mr. Howard said the date of sale is April 1, 1999; the bonds are rated A by Standard & Poor's; the expected interest rate is 4.46%; the present value savings are estimated to be \$929,000; and the first call date is August 1, 2010 at 101%.

Mr. Howard said both bond issues are negotiated sales with Peck, Shaffer & Williams as bond counsel; Brown, Todd & Heyburn as underwriter's counsel; Merrill Lynch & Co. as underwriter; and National City Bank as trustee.

Representative Damron made a motion to approve KIA Governmental Agencies Program Revenue and Revenue Refunding Bonds, 1999 Series J. The motion was seconded by Senator Buford and passed by voice vote.

Mr. Howard then discussed follow-up reports for previously approved Kentucky Economic Development Finance Authority (KEDFA) bond issues. He said approval letters were submitted to the Committee for eight KEDFA bond issues which were not filed by bond counsel or the underwriter after the financing was closed as required. KEDFA follow-up reports were submitted for the following bond issues: KEDFA Educational Facilities Revenue Refunding Bonds Series 1998, the Thomas More College Project (\$2,185,000), issued March 1998; KEDFA Health Care Facilities Revenue Bonds, Series 1998 for the Christian Church Homes of KY, Inc. (\$18,855,000), issued April 1998; KEDFA Variable Rate Demand Revenue Bonds, Series 1998 Pooled Hospital Loan Program (\$89,700,000), issued August 1998; KEDFA Catholic Health Initiatives Revenue Refunding Bonds (\$92,915,000), Series 1998, issued May 1998; KEDFA Medical Center Revenue Refunding and Improvement Bonds, Series 1998 for the Ashland Hospital Corporation King's Daughter's Medical Center Project (\$55,860,000), issued July 1998; KEDFA Hospital Facilities Refunding and Revenue Bonds, Series 1998 A, Highlands Regional Hospital Project (\$16,880,000), issued November 1998 (resubmitted); KEDFA Hospital Facilities Revenue Bonds for the Catholic Healthcare Partners, Series 1998 A (\$21,200,000), issued August 1998; and KEDFA Hospital Variable Rate Demand Hospital Revenue Bonds, Series 1999 A, B, and C for the Baptist Healthcare Obligated Group (\$275,000,000), issued January 1999.

Chairman Haydon said these bond issues were approved at earlier Committee meetings and no further action is required.

Chairman Haydon then asked Mr. Howard to present six new School Facilities Construction Commission (SFCC) bond issues, none of which required a tax increase: Clinton Co. - \$845,000 for renovations to a high school and to replace HVAC; Covington Ind. (Kenton Co.) - \$3,285,000 for Phase II renovations to an elementary school; Fayette Co. - \$29,020,000 for additions and renovations to various district schools; Hancock Co. - \$1,055,000 for renovations and improvements to a middle school; Lawrence Co. - \$5,355,000 to refund 1994 bonds; and Letcher Co. - \$1,450,000 to refund 1989 bonds.

Senator Buford made a motion to approve the school bond issues with SFCC participation in debt service. The motion was seconded by Representative Wayne and passed by voice vote. Chairman Damron abstained from the vote, citing a possible conflict of interest.

Chairman Haydon said there were two 100% locally-funded school bond issues: Eminence Ind. (Henry Co.) - \$110,000 for energy conservation improvements at various district schools; and Mercer Co. - \$1,385,000 to refund 1995 bonds.

Chairman Haydon said no further action was required on these locally-funded school bond issues.

Chairman Haydon then called on Finance Secretary John McCarty, Mr. Bill Hintze, and Mr. Ken Clevidence, Director, University of Kentucky (UK) Capital Construction Division, to discuss two items: a budget interpretation by Secretary McCarty relating to authorization of three capital projects for UK and a request from UK for a \$191,618 scope increase for the UK Career Planning and Placement Center project. The scope increase will be funded with restricted agency funds and will be used to meet the low project bid.

Chairman Haydon said a question arose as to whether this project lost its authorization at the end of the previous fiscal year, and as a result, Finance Secretary John McCarty was asked to render a budget interpretation concerning the UK Career Center project, as well as two other UK projects.

Secretary McCarty said in late January he was formally asked by Mr. George DeBin, UK Vice President for Fiscal Affairs, to review a situation regarding three UK capital projects. He said the three projects were approved as individual line-item capital construction projects during the 1996 Regular Session of the General Assembly. The projects were the Career Planning and Placement Center, the Fine Arts Information

Center, and the second phase of a utility system upgrade. Secretary McCarty said in moving the projects forward, the University discovered a problem relating to the projects' authorization and asked the Secretary to review the situation and render an opinion under KRS 48.500, as to the validity of these projects moving forward.

Secretary McCarty said the University, and all other agencies, were provided with budget instructions in July 1997. The budget instructions specifically stated that any agency-funded projects previously authorized would not require reauthorization if the project would be in the design phase by June 30, 1998. When the budget bill was introduced, however, the language changed to require reauthorization if a previously approved project had not advanced to the construction phase. Secretary McCarty said two of the projects were originally authorized for the second year of the biennium, and it would have been very difficult for these projects to be in the construction phase before June 30, 1998. He said he believed that if an error had been committed, it had been committed in good faith. He said given the type of projects involved, he rendered an opinion that these projects should move forward.

Senator Buford made a motion to approve the budget interpretation. The motion was seconded by Representative Damron and passed by voice vote. The motion was made by Senator Buford to approve the scope increase for the University of Kentucky Career Planning and Placement Center. The motion was seconded by Representative Wayne and passed by voice vote. The revised project scope is now \$2,796,618.

Chairman Haydon said the next item of new business was a report by the Council on Postsecondary Education regarding the Commonwealth Virtual University (CVU). He then introduced Dr. Gordon Davies, President of the Council.

Dr. Davies said House Bill 1, enacted in a Special Session in 1997, endeavored to improve access to higher education for Kentuckians and to increase students' success once they enrolled in a postsecondary institution.

According to a study done by the Rand Corporation, if by the year 2020, Kentucky wants the same participation rates in postsecondary education and the same graduation rates as typify the nation, the state will have to increase by 50% the number of students now attending state postsecondary institutions. Kentucky currently has about 150,000 students enrolled in Kentucky colleges and universities.

Dr. Davies said one of the ways Kentucky can increase college enrollment is to build the capacity of the existing institutions. Another option is to develop an electronic university, a university that will deliver instruction across Kentucky to people who are place-bound for various reasons. Dr. Davies said the CVU is being created as an opportunity to extend the educational abilities of Kentucky's colleges and universities to

people who otherwise might not have access to them. It is also created as a way of enabling Kentucky's colleges and universities to draw from the rest of the nation, and to enrich the curricula they offer to college and university students, importing things that are not easily provided here.

Dr. Davies said the CVU, as Kentucky conceived it, is a delivery vehicle for instruction offered by all of the state's public universities, the technical and community colleges, and any independent colleges or universities that would like to participate in it.

It will not confer degrees, nor will it enroll students; students, who may register electronically, will be enrolled at one of the existing postsecondary education institutions, and tuition and fees will be paid to the universities, and not to the CVU. The CVU will be a conduit for university instruction. The student can make one phone call or an e-mail inquiry to a central place and register for the courses and receive financial aid, and request transcripts for courses completed. The student will also be able to access a virtual library, allowing students to determine what materials are available in each academic library in Kentucky institutions. The student will be able to check materials out electronically, which will be delivered to a local point, normally a public library or an institutional library by courier. Once a student completes his course of study, the degree will be awarded by a Kentucky university or college, not the CVU.

Dr. Davies said the CVU will offer nine pilot programs this Fall, ranging from technical programs through graduate programs, and anticipates expanding the offerings in the Spring of 2000.

Dr. Davies said new providers of electronic education are now coming into the market, and Kentucky and its postsecondary institutions must move in this direction and provide this kind of service. Dr. Davies said by starting the CVU, Kentucky will learn how to teach more effectively. The state will also extend its capacity to reach more Kentuckians.

Dr. Davies said the CVU will have approximately 20 employees; most of whom will be attached to a help desk, fielding questions. There will be approximately five professional people to administer the activity, and some clerical support staff. The CVU has already hired two staff: Dr. Mary Beth Susman, head of the Colorado Electronic Community College, who will serve as CEO, and Miko Pattie, who will serve as librarian for the Commonwealth Virtual Library.

Secretary McCarty said this is a very new fast-moving and strategically compelling initiative. He said Dr. Davies asked him to prepare two budget interpretations regarding the Technology Initiative Trust Fund. The first question raised was whether funds appropriated to the trust fund to service debt for CVU technology could be used for other

CVU activities. He said he reviewed the requests with GOPM and the Governor's Office, and noted the request to use funds originally allocated for debt service for other costs is an unusual request. However, given the trust fund's structure, and based on background information given to him by various members of the Administration, Secretary McCarty said he believed in this very narrow instance, it is appropriate to use dollars that were originally appropriated for debt service for other operating costs.

Secretary McCarty said the second issue, the use of Technology Initiative Trust Fund money to fund the additional amount of debt service needed to bond the Kentucky Community and Technical College System (KCTCS) Automated Administrative Systems, for seven rather than the authorized 20 years, is a more technical issue. Secretary McCarty said the life of a software system is substantially less than 20 years in today's environment, and the appropriate amortization period of that debt is no more than seven years. He said in this instance, he agreed that the state should be able to use the available trust funds to change the amortization period to seven years.

Secretary McCarty said both of his interpretations are very narrow and are based on the structure of the Technology Initiative Trust Fund. He said debt service allocations in the Physical Facilities Trust Fund, another postsecondary education trust fund, will not be permitted to be used for operating costs. He stressed that his interpretations are very narrow, and specific to a program in its infancy, and said in this instance, a certain level of flexibility was required.

Representative Wayne referred to a story in the *Herald-Leader* regarding the Western Governors University, and the fact that so few students are using the electronic university. He asked what the state can learn from the mistakes made by Western Governors University. Dr. Davies said the Western Governors University has not been a great success so far, but by contrast, the Colorado Electronic Community College, which is in its second year of operation, has four times as many students as Western Governors University. He said one lesson to be learned from Western Governors University is not to announce plans for a virtual university too soon; the school was not ready to get the programs off the ground when it opened. He said unlike the CVU, Western Governors University is a stand-alone institution, which will confer degrees. It is not relying on existing resources. The CVU, on the other hand, is a delivery vehicle for instruction that is provided by a set of faculty already in place in Kentucky's colleges and universities.

Representative Wayne commended Dr. Davies for his broad-minded and creative thinking. He said the future is filled with changes we can't even fathom, but it sounds like the state is trying to get ahead of those changes. Dr. Davies added the best way to make it a future we want, is to create the kind of future we want and that is what the Council is trying to do with the CVU.

Chairman Haydon asked how the CPE will encourage use of the CVU. Dr. Davies said they are developing a marketing plan, to be sold through the media, including KET, the universities, and the community and technical colleges. He said the regional postsecondary education centers will be major hubs for this activity.

Representative Wayne asked about procurement of a library management system for the Commonwealth Virtual Library. He said just before Christmas, a number of legislators received a letter from Ameritech, a competing vendor, protesting the fact that the Council did not use a formal procurement process before choosing the Voyager system by Endeavor Systems, Inc. He asked Dr. Davies to address this issue. Dr. Davies said the University of Louisville (U of L) went through an extensive bid process and awarded a contract to Endeavor. He said the eight remaining public institutions have agreed to purchase the same system off the U of L contract. He said it was their judgment, after reviewing the process that U of L went through, that this system would meet their needs, and they chose to utilize the existing contract that had been written.

Representative Wayne said he was concerned about making sure things are done properly. Dr. Davies said he is sensitive to the Committee's concerns regarding this issue; he said it seemed prudent to use the U of L contract because of the care with which the bidding had gone forward.

In response to a question by Representative Wayne, Dr. Davies said as far as he knows, there are no political ties between Endeavor Systems, Inc. and the Administration.

Chairman Haydon said no action is required on budget interpretations; they are required to be submitted to the Interim Joint Committee on Appropriations and Revenue for its consideration.

Next, Mr. Howard discussed Kentucky Asset/Liability Commission (KALC) Project Notes, 1999 General Fund, First Series. Gross proceeds of \$49,400,000 will be used to fund the CVU Technology Pool, the Research Equipment and Lab Replacement or Acquisition Pool for the University of Kentucky and the University of Louisville, and the KCTCS Automated Administrative Systems. Mr. Howard said the proposed date of sale is March 16, 1999; the ratings have yet to be determined, although they are expected to be the same as a typical State Property and Buildings Commission issue; the expected net interest rate is 4%; the notes are 7-year fixed rate notes; and the first call date is March 15, 2001. The bond issue will be a negotiated sale with Peck, Shaffer & Williams as bond counsel; Chase Manhattan Trust Company as trustee; and Salomon Smith Barney as underwriter.

Senator Buford made a motion to approve KALC Project Notes, 1999 General Fund, First Series. The motion was seconded by Representative Damron and approved by voice vote.

Chairman Haydon said enclosed in members' folders were four information items: a Capital Projects Update; a Department of Parks Revitalization Bond Implementation Committee Report; information on the state government performance project by Syracuse University and *Governing* magazine discussed earlier; and a status report on local construction grant projects authorized by the 1998 General Assembly.

The next Committee meeting is scheduled for March 16, 1999 at 1:00 p.m. in Room 129 of the Capitol Annex. Chairman Haydon said at the March meeting, the Committee will review a report from the Attorney General's Office relating to the investigation of the selection of a design/build team for the Kenton County Courthouse.

With there being no further business, Representative Damron made a motion to adjourn the meeting. The motion was seconded by Senator Buford. The meeting was adjourned at 3:00 p.m.